



Insurance

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Some key things to know
about insurance:

- Endorsements
- Incentives
- Regulation

About Endorsements ...

- An obligation to procure insurance
 - Can be worthless if breached.
 - To protect client interests, must get endorsement.

About Incentives ...

- Asymmetry of incentives and bargaining power
- Insurance companies have incentive to
 - Sell more policies
 - Avoid paying claims
- Insurance companies can do this by being clever about "fine print" and dragging feet on paying claims

About Incentives ...

- Insurance customers have incentive to
 - Not buy insurance until they need it
 - Avoid seeming risky
 - Take less care when insured
- IOW, both sides have incentives:
 - to hide what they know
 - otherwise take the risk out of risk

About regulation ...

- Insurance is heavily regulated at state level
- Regulation limits "fine print" subversions of bargain by insurers
- Regulation forces insurers to pay claims without litigation

About regulation ...

- Regulation may force customers to purchase insurance to
 - Keep premiums affordable (e.g., auto insurance, Affordable Care Act)
 - If only ultra-risky people buy insurance, premiums will be ultra high
 - Provide a source of payment for third parties (e.g., auto liability insurance)

Review question:

- Hexetron Mfg's sales contract with Geno's General Store obligates Hexetron to add Geno's to its products liability policy with IIG Insurance Co.
- Hexetron never follows through on this.
- Geno's incurs a huge products liability judgment. And now Hexetron is insolvent. Can Geno's recover from IIG?
- **NO. Geno's should have gotten the endorsement. Without it, Geno's is not insured and gets no benefit of insurance.**